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FISCAL IMPACT STATEMENT

LS 6752

BILL NUMBER: HB 1066

NOTE PREPARED: Dec 15, 2004

BILL AMENDED:

SUBJECT: Military Base Development Incentives.

FIRST AUTHOR: Rep. Koch

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill designates each Certified Technology Park located within a radius of five miles of the Crane Military Base as a Qualified Military Base Enhancement Area. The bill extends the following incentives currently applicable to businesses located on closed military bases to businesses that are located in the Qualified Military Base Enhancement Area and meet certain criteria: (1) the Sales Tax exemption for electricity purchases; (2) the reduced Corporate Adjusted Gross Income Tax rate. (3) the Investment Credit.

Effective Date: January 1, 2006.

Explanation of State Expenditures: The bill requires the Indiana Department of Commerce (IDOC) to coordinate development activities and serve as development catalyst in Qualified Military Base Enhancement Areas; promote the Areas; and act as a liaison between the Areas and businesses, local governments, and residents of nearby communities. These additional administrative demands presumably could be absorbed given the existing budget and resources of the IDOC. The November 4, 2004, state staffing table indicates that the IDOC has 31 vacant full-time positions, including regional office positions.

Explanation of State Revenues: *Summary:* The bill extends the current law tax incentives applying to certain businesses operating on closed military bases to certain businesses operating in "Qualified Military Base Enhancement Areas. The Qualified Military Base Enhancement Areas are certified technology parks located within 5 miles of the Crane Naval Warfare Center. The incentives include: (1) a Sales Tax exemption for certain utility service purchases; (2) a reduction in the Corporate Adjusted Gross Income (AGI) Tax rate; and (3) an AGI Tax credit for equity and debt financing. (A more detailed explanation of the incentives is contained below under *Closed Military Base Tax Incentives.*) A certified technology park was designated in Daviess

County near Crane in May 2004. These incentives are effective for businesses in technology parks near Crane beginning in tax year 2006. The total amount that could potentially be claimed by businesses under the three tax incentives is indeterminable. However, the fiscal impact could potentially begin in FY 2006 or FY 2007.

The net revenue impact of these tax incentives depends on the extent that collections on taxable activities attributable to new business locations or business expansion within the military base areas is less than or exceeds the tax incentives claimed. It also depends on the extent that collections relating to relocated operations in the military base areas are less than or exceed the taxes that would otherwise have been collected on these operations elsewhere in the state. However, if the business location or expansion would have occurred in the absence of the tax incentives, the net impact would be the total of the incentives.

To receive the tax incentives, the business must either be: (a) a participant in the technology transfer program conducted at Crane; (b) a U. S. Department of Defense contractor; or (c) involved with Crane in a mutually beneficial relationship evidenced by a memorandum of understanding between the business and the U. S. Department of Defense.

Closed Military Base Tax Incentives: Under current statute, the following three tax incentives are authorized for businesses locating new operations to a facility, or expanding existing operations in a facility, in closed military bases.

(1) A Sales Tax exemption for utility services purchased by a business that relocates or expands all or part of its operations to a facility on a closed military base.

(2) A reduction from 8.5% to 5% in the Corporate Adjusted Gross Income (AGI) Tax rate for a corporation that locates all or part of its operations on a closed military base. The rate reduction applies only to income derived by the corporation from sources on the closed military base during the taxable year in which the corporation located on the base, and the next four succeeding taxable years.

(3) A nonrefundable AGI Tax credit for investment in a business that locates all or part of its operations on a closed military base. Creditable investment includes both equity financing and debt financing. Credits are awarded for the cost of investment and for jobs created due to the investment. The percentage credits allowed vary depending upon the type of investment, the type of business, and the number of jobs created. The taxpayer may carry over any unused credit amount to subsequent taxable years. The taxpayer is not eligible to carry back any unused credit. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

These incentives currently apply to three installations in Indiana that are both Enterprise Zones and Military Base Reuse Areas - Grissom AFB in Miami County, Fort Benjamin Harrison in Marion County, and the Indiana Army Ammunition Plant in Clark County.

Certified Technology Parks: Current statute provides for the Indiana Department of Commerce (IDOC) to certify technology parks proposed by local redevelopment commissions to encourage the location of high-technology businesses within these areas. A proposed technology park may be approved by the IDOC if the local redevelopment commission demonstrates significant support or commitment of certain facilities, services, activities, or funding from an institution of higher education or a private, research-based institute. However, current statute also provides that a certified technology park may be approved if the application for the park demonstrates significant support or commitment of certain facilities, services, activities, or funding

from a military research and development or testing facility on an active U. S. military base or other military installation. Presently, 12 certified technology parks have been designated by the IDOC. This includes a certified technology park near the Crane Naval Warfare Center in Daviess County that was designated in May 2004.

The technology park is authorized to capture incremental property taxes and incremental revenue from state income taxes, local option income taxes, and Sales Tax generated in the park. However, a park is prohibited from capturing more than \$5 M over its life in incremental income and Sales Tax revenue generated in the park.

Explanation of Local Expenditures:

Explanation of Local Revenues: Certified technology parks are authorized to capture incremental property taxes and incremental revenue from local option income taxes.

State Agencies Affected: Department of State Revenue, Department of Commerce

Local Agencies Affected:

Information Sources:

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